

DEPARTMENT OF STATE REVENUE

#2000-07IT

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ISSUE

Gross Income Tax – Determination of Indiana Gross Income Tax Rate for Provision of Certain Services

Authority: IC 6-2.1-2-4, IC 6-2.1-1-0.6, IC 6-2.1-2-5

The taxpayer requests the Department to determine the Indiana gross income tax rate for the provision of certain services.

STATEMENT OF FACTS

The taxpayer presents the following services for Departmental determination:

1. Full-serve Black & White, Color, and Oversize Printing -

This activity entails the production of printed materials utilizing high- to very high-volume printing equipment. The equipment consists of printers, copiers, scanners, computers, and multi-function devices (computer, scanner, and/or printer combined) that can cost as much as a few hundred thousand dollars. Although older equipment has the capability of processing digital and scanned documents, the new machines being deployed by the taxpayer do not possess scanning capabilities. The newer machines function as printers that require a separate computer and scanner to print the traditional hardcopy original received from a customer. The equipment can print in sizes from envelope to 11" X 17" and up to banner or poster sizes, utilizing bond paper, transparencies, mailing labels, glossy and specialty papers, vellum, and mylar. The equipment is capable of performing document enhancements and additional services, including document manipulation; pre-press activities of receiving,

processing, moving, storing, and transmitting the copy elements and image to be printed; image shifting; enlarging/reducing; and color and contrast alteration. Additionally, this equipment has the capability of performing various finishing services, including stapling, collating, folding, inserting tabbed pages, and binding. Toner a dry form of ink, is applied by one or more processes (specifically by digital means) and in certain pieces of equipment liquid ink is applied. This equipment is operated solely by employees of the taxpayer and is located in areas of the stores that are not accessible to customers.

2. Self-serve Black & White, Color, & Oversize Printing –

This activity is closest to the traditional business of photocopying. Generally, the printing is performed by the customer at the self-photocopying equipment. However, the equipment does employ digital technology to print the materials and is comprised of various high-volume copiers. The machines do possess document enhancement capabilities, including image shifting, enlarging/reducing, and color and contrast alteration. Additionally, the equipment can perform limited assembly functions of collating and stapling. Although the equipment may be capable of receiving electronic files, generally the equipment is not connected to receive such. Toner, a dry form of ink, is applied by one or more processes (specifically by digital means) and in certain pieces of equipment liquid ink is applied.

3. Full-serve Finishing and Binding –

This activity represents the various finishing and binding services that the taxpayer provides to its customers generally along with full-serve black & white, color, and oversize printing. The equipment consists of high-volume, high-capacity drills, cutters, bindery equipment, laminators, folders, shrink wrappers, collators, and other equipment that drill, cut, bind, laminate, fold, package, mount, score, insert, and collate printed materials. The binding equipment is capable of various binding methods, including tape, channel, comb, velo, perfect, coil, and wire bindings. Additionally, certain equipment can perform booklet making and saddle stitching. The equipment that the taxpayer utilizes in its business is the same bindery equipment as used in commercial printing. This equipment is operated solely by employees of the taxpayer and is located in areas of the stores that are not accessible to customers.

4. Full-serve Document Creation –

This activity represents the various activities and functions of the taxpayer in organizing and manipulating customer content (i.e., text and graphics provided by the customer). Specifically, these activities are pre-press activities and functions that include the taxpayer's employees receiving either physical or electronic text or graphic images (copy elements and images); the processing of these text or graphic images so that the elements may be combined or moved as directed by the customer; and the storing of the elements so that the final product can be transmitted to the printing equipment for reproduction. Employees of the taxpayer do not draft copy or create artwork for reproduction; only customer content (text and graphics) is utilized. The equipment used to perform these activities and functions consists of computers, scanners, and software that produce output to be printed on the taxpayer's Full-serve

Black & White, Color, and Oversize Printing equipment. The equipment can create documents, including brochures, forms, invitations, letterhead, programs, resumes, menus, flyers, posters, and banners. Additional activities included in this activity are preparing/creating a cd-rom diskette (creating a cd-rom master) from text or graphics provided by the customer and preparing tabbed dividers printed with customer-provided descriptions. These activities are performed by the taxpayer's employees and utilize equipment that is available for use by the taxpayer's employees and that can be rented by customers.

5. Full-serve Shipping & Mailing Services –

This activity represents the various shipping and mailing services provided by the taxpayer to its customers. The gross income from this activity includes charges relating to distribution of the printed materials, including postage and UPS/Fedex charges, as well as the charges to package or insert the printed materials, address the mailings and affix postage, and correlate/maintain the mailings of printed materials printed by the taxpayer.

6. Full-serve Custom Products Printing –

This activity represents the specialty printing services provided by the taxpayer to its customers. The gross income from this activity is derived from the taxpayer's printing or placing the customer's text or graphics on custom cards (including greeting cards), calendars, t-shirts, buttons, mousepads, etc. Toner, ink and/or a printed decal are applied by one or more processes. Due to the non-standard nature of this type of printing, employees of the taxpayer may have to assemble the printed item and repackage the completed job for the customer. The activities included in this category are performed by employees of the taxpayer.

DISCUSSION

IC 6-2.1-2-4 provides that the receipt of gross income from the business of commercial printing that results in printed materials, excluding the business of photocopying, is subject to the tax rate of three-tenths of one percent (0.3%). IC 6-2.1-1-0.6 defines "commercial printing" as a process or activity, or both, that is related to the production of printed materials for others, including the following:

1. Receiving, processing, moving, storing, and transmitting, either physically or electronically, copy elements and images to be reproduced.
2. Plate-making or cylinder-making.
3. Applying ink by one (1) or more processes, such as printing by letter press, lithography, gravure, screen, or digital means.
4. Casemaking and binding.

5. Assembling, packaging, and distributing printed materials.

The taxpayer in providing its services, in certain instances, performs one or more similar processes and utilizes similar equipment to commercial printers. Further, the technologies underlying the businesses of commercial printing and photocopying have been in a process of converging for a number of years. Notwithstanding these statements, the taxpayer in providing its services does not perform the identical processes and utilize the identical equipment associated with commercial printing. The taxpayer, therefore, is not in the business of "commercial printing", but, rather in the business of photocopying. Consequently, the taxpayer's gross income derived from the provision of its services is subject to the tax rate of one and two-tenths percent (1.2%) pursuant to IC 6-2.1-2-5.

RULING

The Department rules that the taxpayer's gross income derived from the provision of its services is subject to the tax rate of one and two-tenths percent (1.2%).

CAVEAT

This Ruling is issued to the taxpayer requesting it on the assumption that the taxpayer's facts and circumstances, as stated herein, are correct. If the facts and circumstances given are not correct, or if they change, then the taxpayer requesting this ruling may not rely on it. However, other taxpayers with substantially identical factual situations may rely on this ruling for informational purposes in preparing returns and making tax decisions. If a taxpayer relies on this ruling and the Department discovers, upon examination, that the fact situation of the taxpayer is different in any material respect from the facts and circumstances given in this ruling, then the ruling will not afford the taxpayer any protection. It should be noted that subsequent to the publication of this ruling, a change in a statute, regulation, or case law could void the ruling. If this occurs, the ruling will not afford the taxpayer any protection.

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